

**MINUTES**  
**Finance Committee**  
**November 8, 1999**

The Finance Committee met November 8, 1999, at 8:30 a.m. (ET) in the Department of Local Government's Conference Room, Frankfort. Finance Committee Chair Baker presided.

*ROLL CALL*

The following members were present: Mr. Barger, Mr. Greenberg, Mr. Hackbart, Mr. Hardin, Mr. Listerman, Ms. Ridings, Mr. Whitehead, and Chair Baker.

*APPROVAL OF  
MINUTES*

A motion was made by Mr. Barger and seconded by Mr. Whitehead to approve the July 19, 1999, Finance Committee Minutes and the October 11, 1999, Budget Hearing Minutes. The motion passed unanimously.

*ACTION:  
2000-02 OPERATING  
BUDGET  
RECOMMENDATION*

**RECOMMENDATION:**

- That the Council approve a state appropriation recommendation to the Governor and General Assembly in the amount of \$928,657,800 in 2000-01 and \$972,949,900 in 2001-02 for the universities, the Kentucky Community and Technical College System, and Lexington Community College. This recommendation (see Table 1 of the agenda materials) includes in each year of the biennium:
  - Base increases using the benchmark funding system.
  - Base changes for state-supported debt service, operation and maintenance of previously approved facilities coming on-line, the transfer of the 1999-2000 Research Challenge and Regional Excellence Trust Funds to the bases of the universities, and the transfer of selected pass-through programs from the Council's base to the institutional bases.
  - Special initiative funding for proposals submitted by the Kentucky Community and Technical College System, Northern Kentucky University, the University of Louisville, and Western Kentucky University.
- That the Council approve a state appropriation recommendation to the Governor and General Assembly in the amount of :
  - \$8,000,000 in 2000-01 and \$58,100,000 in 2001-02 for five current incentive trust funds.

- \$22,350,000 in 2000-01 and \$37,500,000 in 2001-02 for statutory increases in the Kentucky Educational Excellence Scholarship program in the Student Financial Aid trust fund.
- \$2,000,000 in 2000-01 and \$11,250,000 in 2001-02 for the Adult Education and Literacy trust fund and the Science and Technology trust fund.

Each trust fund is described in the background section of the agenda item. These trust funds, as listed in Table 2 of the agenda materials, would be appropriated to the Council.

- That the Council approve a biennial budget recommendation to the Governor and General Assembly for the Council agency budget request (see Table 3 of the agenda materials) as follows:
  - State general funds in the amount of \$4,340,700 in 2000-01 and \$4,449,900 in 2001-02 to operate the agency.
  - State general funds in the amount of \$6,775,100 in 2000-01 and \$7,425,700 in 2001-02 and \$1,355,000 in restricted agency funds in each year of the biennium for the Kentucky Commonwealth Virtual University and the Kentucky Commonwealth Virtual Library.
  - State general funds in the amount of \$10,701,900 in 2000-01 and \$11,180,800 in 2001-02 for pass-through programs to be allocated to the institutions and other public agencies.
  - \$1,100,000 in federal funds in each year of the biennium for the Eisenhower Mathematics and Science program.
  - State general funds in the amount of \$331,800 in 2000-01 and \$337,300 in 2001-02 and federal funds in the amount of \$3,243,200 in 2000-01 and \$3,250,900 in 2001-02 for the Kentucky Commission on Community Volunteerism and Service, which is attached to the Council for administrative purposes only.

MOTION: Mr. Barger moved that the recommendations be approved. Mr. Greenberg seconded the motion.

DISCUSSION: The revised recommendations listed above reflect three changes from those mailed to the Council members:

1. The Council staff recommends second year funding in the amount of \$500,000 to support the planning phase of Western Kentucky University's *Kentucky Academy for Mathematics and Science*. Approval of this recommendation does not represent Council obligation for or commitment to future funding beyond the planning of the Academy and this recommendation does not imply on-going funding for the Academy.
2. The Council staff restructured the Research Challenge and the Regional Excellence Trust Funds. Originally, the staff listed the entire \$120 million of bond proceeds (\$100 million for the University of

Kentucky and the University of Louisville, and \$20 million for the comprehensive universities) under the Research Challenge Trust Fund. In this revised recommendation, the Council staff moved the \$20 million recommended for the comprehensive universities from the Research Challenge Trust Fund to the Regional Excellence Trust Fund. The staff also suggests that the \$20 million bond proceeds recommended for the comprehensive universities be dealt with in two ways: a) Allocate \$10 million to the institutions using the same guidelines followed in the current biennium, and b) Allocate the other \$10 million on a first come, first served competitive basis.

3. The Council staff changed the *Action Agenda* item under the Regional Excellence Trust Fund to encompass the targeted increases in enrollment and retention rates at the comprehensive universities.

AMENDMENT: Since the Workforce Development Trust Fund included two items related to the *Action Agenda* (workforce training and enrollment growth and retention rates), Mr. Hackbart recommended restructuring the trust fund to incorporate the items under an *Action Agenda* heading as was done under the Regional Excellence Trust Fund.

AMENDMENT VOTE: The amendment was adopted by unanimous consent.

The presidents asked what criteria were used to determine special initiative recommendations. Mr. Walker stated that the Council staff reviewed all special initiatives and categorized the initiatives into three categories:

- 1) Initiatives that the staff believed should be funded by the institutions using existing funding.
- 2) Initiatives that the staff believed should be funded by the institutions using one of the recommended trust funds.
- 3) Initiatives that the staff believed should be brought forward as a special initiative additional funding request.

The presidents requested that in the future, better communication be established concerning selection criteria.

Mr. Hackbart mentioned that the recommended Metropolitan College new initiative was not really new, but rather a transfer of funds from the Economic Development Cabinet's base budget to the University of Louisville's base budget. The GOPM told the Council staff that it would recommend a 2.4 percent base increase on that program regardless of the base budget in which it is housed. Mr. Walker stated the staff was recommending a \$100,000 increase for the program 2001-02.

President Wethington suggested that the research universities might not be able to receive Research Challenge Trust Fund money because funding for that trust was not recommended until the second year of the biennium. Mr. Walker said that in recommending a bond issue for that program, the debt service is recommended for the second year, but the bond issue itself will come in the first year. The Council will work with the Governor's Office for Policy and Management and the Legislative Research Commission to ensure that there is no gap in terms of fund raising.

VOTE: The motion, as amended, at the meeting, passed unanimously.

*ACTION:*  
*2000-02 CAPITAL*  
*BUDGET*  
*RECOMMENDATION*

RECOMMENDATIONS:

- That the Council recommend to the Governor and General Assembly the projects and pools listed in the agenda materials using state and agency bonds with associated debt service.
- That the Council list other projects that the institutions might do or equipment they might acquire with their own money in 2000-02 as indicated in the agenda materials.

MOTION: Mr. Hackbart moved that the recommendations be approved. Mr. Barger seconded the motion.

DISCUSSION: The priorities in this recommendation support the objectives of the Kentucky Postsecondary Education Improvement Act of 1997 and the *1999-2004 Action Agenda*. The recommendation presented at the committee meeting was different than the recommendations mailed to the Council members. The one revision was the inclusion of a recommendation for the construction of research buildings at the University of Kentucky and the University of Louisville using a 60 percent state and 40 percent institution shared funding approach.

Mr. Greenberg suggested that the research buildings at the University of Kentucky and the University of Louisville be treated as independent projects. If one board agreed to the shared funding approach, but the other board did not, then the project could proceed at the institution where the board accepted the shared funding approach. Mr. Greenberg's recommendation was incorporated by unanimous consent.

Mr. Hackbart questioned the matching or shared funding approach. He stated that there is no established policy regarding the Council imposing matching requirements for capital projects and what the matching ratios should be. Mr. Walker stated that in the past the Council implemented such a funding approach on at least three other research facilities. The logic the Council staff used was that the facilities had the capacity of creating new

revenue – sponsored research. The Council staff had an unwritten policy in the past to take into consideration the revenue generating capacity of facilities.

Mr. Greenberg believes that long-term a matching policy is a good idea, but for the budget and the implementation of House Bill 1, public policy would be best served by looking at projects on a case-by-case basis. One of the cultural issues the Council wants to change is to obtain more private sector support for postsecondary education through fund raising. The Council has pushed extremely hard to generate as many dollars as possible from as many resources as possible for research. With the anticipated revenue shortfall, postsecondary education institutions have not been asked to plan for a budget cut.

The Capital Planning Advisory Board recommended to the Governor and General Assembly three postsecondary education capital construction projects:

- 1) The University of Kentucky Biomedical Research Building.
- 2) The University of Louisville Research Building - Belknap Campus.
- 3) The Kentucky State University's Hathaway Hall renovation.

The CPAB recommended to the Governor and the General Assembly building the research facilities. Even though the universities requested state funding in total for the research facilities, the CPAB recommended using other funds if available to partially fund the projects. The Council staff recommendation is broad as it pertains to the matching requirement, and the matching funding could be agency bonds or agency funds. Matching money could be private funds, agency funded bonds, or any other available agency funds. The Council staff recommendation is not limited to matching funding coming solely from indirect cost recovery.

The Council staff recommendation deals with a 20 year funding process – 20 year state bonds and matching by the institutions over that time. The Council staff has talked with the GOPM staff about the possibility of "front-end" loading by the state and "back-end loading" by the institutions. The Council staff will continue to work with the Governor, the GOPM staff, the Legislature, and the LRC staff to investigate all options.

President Wethington said that the University of Kentucky needed to increase its contract and grant activity by \$100 million in order to become a top twenty research institution. The facility being recommended by the Council staff would generate approximately \$15 million.

Mr. Baker stated that the intent of the Council is to see the research facilities built, but because of budget constraints, the Council must proceed with the shared funding approach.

President Ransdell stated that the recommended funding for the Thompson Science Complex Phase I renovation is \$11 million short of the total project scope. While a matching mandate is not stipulated in the agenda item, a match is required in order to complete the project. The \$11 million margin could be made up by Western Kentucky University coming forward with the additional amount if the university is completing funding using primarily (51 percent) federal or private funds. Mr. Walker suggested that the \$11 million be authorized as an eligible agency bond project and added to the list presented in Table 3. Adding the margin to the agency bond pool means that there will be \$107 million instead of \$96 million in eligible projects competing for funding from the recommended \$75 million agency bond pool.

AMENDMENT MOTION: The motion was made by Ms. Ridings and seconded by Mr. Hardin to modify the agency bond pool recommendation so that it lists Western Kentucky University's Thompson Science Complex Renovation for \$11 million.

AMENDMENT VOTE: The motion passed unanimously.

President Wethington said that there is a provision in the Postsecondary Improvement Act that requires the University of Kentucky Board of Trustees to review and comment upon all capital projects for the University of Kentucky Community College System. The UK Board has yet to complete the task of reviewing the recommended projects. President McCall stated that he and President Wethington agreed that the review of the community college projects by the UK Board was not mandated by House Bill 1, and the Southern Association of Colleges and Schools required removal of that stipulation. Mr. Davies asked the Finance Committee to act on these recommendations, and then ask the UK Board to comment upon the community college projects at its convenience.

VOTE: The motion to approve the recommendation as amended passed unanimously.

*ACTION:  
1998-2000 AGENCY  
BOND AUTHORITY*

RECOMMENDATION:

- That the Council approve the authorization of \$10,229,000 from the unused 1998-2000 agency bond authority. The allocation addresses the need to complete fire safety projects in student housing facilities and includes one other facility. The Council action is a recommendation to the Secretary of the Finance and Administration Cabinet for final action. Projects to be authorized are listed in the agenda materials as Attachment A and Attachment B.

MOTION: Mr. Hardin moved the approval of the recommendation.  
Mr. Whitehead seconded the motion.

DISCUSSION: In the current biennium, the Council has authorization to recommend to the Secretary of the Finance Cabinet \$35 million in agency bonds. To date, the Council has approved the issuance of \$24.8 million. The Council staff recommends funding student housing fire safety projects at Eastern Kentucky University, Kentucky State University, and Morehead State University and funding for Phase II of the Aging and Allied Health Facility at the University of Kentucky from the residual 1998-2000 agency bond authority.

VOTE: The motion passed unanimously.

*ADJOURNMENT*

The meeting adjourned at 10:00 a.m.

Respectfully submitted,

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J. Kenneth Walker  
Vice President for Finance

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Billie D. Hardin  
Secretary